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Office Of The City Auditor

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Office Of The City Auditor City Of San José

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Introduction

With City of San José (City) and Redevelopment Agency operating and capital budgets of over \$3.9 billion a year, the members of the San José City Council need an effective means to monitor the use of tax dollars and City and Redevelopment Agency activities and programs. As an independent audit function, the Office of the City Auditor (Auditor's Office) plays an integral role in the oversight process. Findings and recommendations developed through the audit process have helped save tax dollars, increase revenue, and improve the management of City and Redevelopment Agency programs. Additionally, our independent reviews have served as an important, objective information source for the City Council, City management, the Redevelopment Agency, and the general public.

Authority And Responsibility

The San José City Charter prescribes the powers and duties of the Auditor's Office. Section 805 of the Charter grants to the City Council the authority to appoint the City Auditor. The Charter also outlines the City Auditor's primary duties as follows:

- Conduct or cause to be conducted annual post audits of all the City's fiscal transactions and accounts kept by or for the City including the examination and analysis of fiscal procedures and the examination, checking, and verification of accounts and expenditures;
- Conduct performance audits, as assigned by the City Council, to determine whether (1) City resources are being used in an economical, effective, and efficient manner; (2) established objectives are being met; and (3) desired results are being achieved;
- Conduct special audits and investigations as assigned by the City Council;
- Submit a monthly report to the City Council of the Office activities, findings, and recommendations to improve the administration of the City's fiscal affairs; and
- Perform other such auditing functions consistent with the City Charter and submit reports as required.

Section 805 also grants the City Auditor access and authority to examine all records of any City department, office, or agency, except those of an elected official of the City.

Mission And Core Service	The Mission and Core Service of the City Auditor's Office are as follows:
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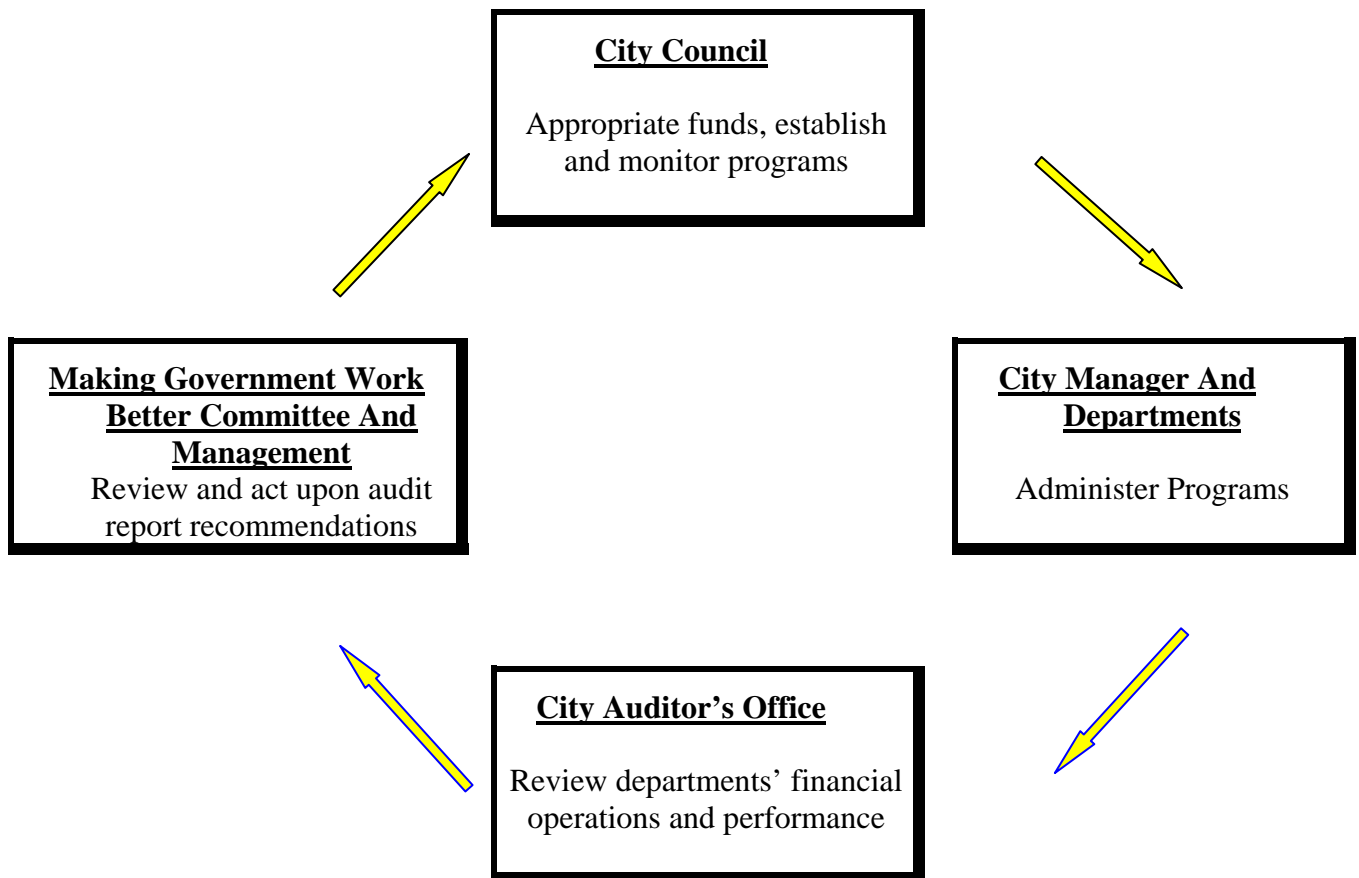
<i>Mission Statement:</i>	To independently assess and report on City operations and services.
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<i>Core Service:</i>	Audit Services
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To identify ways to increase the economy, efficiency, effectiveness, and accountability of City government and provide independent, reliable, accurate, and timely information to the City Council and other stakeholders.

Role Of Auditing In City Government	The City Auditor's audits and reviews provide insight into City departments, offices, agencies, and their programs. Such audits and reviews are but one step in the process of establishing City programs, evaluating their performance, providing the City Council and City Administration with needed information, and making any necessary changes to ensure that City programs are as efficient and effective as possible. Exhibit 1 describes the role of auditing in City government.
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Exhibit 1 Role Of Auditing In City Government



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Auditing City Departments And Programs

The Auditor's Office performs or coordinates audits and studies according to government auditing standards promulgated by the United States General Accounting Office (See Appendix A). The following describes the scope of work performed.

Financial Audits

Financial audits include financial statement and financial-related audits. Financial statement audits provide reasonable assurance that the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Financial-related audits determine whether (a) financial information is presented in accordance with established or stated criteria, (b) the entity has adhered to specific financial compliance requirements, or (c) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

In accordance with the City Charter, an independent accounting firm conducts the financial statement and financial-related audits of the City of San José. The Auditor's Office coordinates the work of the independent accounting firm. The annual audit determines whether the financial statements fairly present the City's financial condition according to generally accepted accounting principles. The annual financial audit also includes reviews to determine City compliance with laws and regulations, particularly for those programs receiving federal funding.

The nature and scope of the financial audits the Auditor's Office performs differs significantly from the outside audit of the City's financial statements. The primary emphasis of the financial audits the Office conducts is to assess whether the City's internal control systems ensure the following:

- Resources are used in accordance with laws, regulations, and policies;
- Reliable data are obtained, maintained, and properly disclosed in financial and management reports; and
- Resources are safeguarded against loss due to fraud, theft, errors, and mismanagement.

These audits provide City management with the objective information required to ensure that internal control systems are working as intended.

**Performance
Audits**

Performance audits include economy and efficiency audits and program audits. Economy and efficiency audits determine (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently; (2) the causes of inefficiencies or uneconomical practices; and (3) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

Program audits determine (1) the extent to which City Council-established desired results or benefits are being achieved; (2) the effectiveness of audited organizations, programs, activities, or functions; and (3) whether the audited entity has complied with laws and regulations applicable to the program.

Audits that focus on efficiency issues typically evaluate the reasonableness of program costs relative to the results of services produced. Auditors may assess the relationship between staffing and other costs and measurable program benefits. Auditors may also (1) determine if a program has established appropriate goals and objectives, (2) review the adequacy of management's system for measuring success, (3) assess the extent to which desired levels of results are achieved, and (4) identify factors that inhibit satisfactory performance.

Audit reports usually make recommendations to management to correct inefficient practices and/or improve procedures to maximize resource utilization and productivity. The reports may also make recommendations to change management systems, City policies, and ordinances.

Special Studies

The Auditor's Office is occasionally requested to do thorough and impartial data collection, analysis, and reporting. The Office produces special studies to address these information needs. Special studies and reports are subject to the same rigorous audit methodology regarding data collection and quality control reviews. Special studies are intended to provide timely and objective information to the City Council, City Administration, and the public.

Sales And Business Tax Audits	<p>In July 1994, the Auditor's Office initiated a continuous audit of sales and business taxes. The objectives of this audit are to identify</p> <ul style="list-style-type: none">• San José retail businesses that do not file sales tax returns;• Misallocation of the local portion of the sales taxes paid by San José businesses; and• San José businesses that have paid sales taxes but not the San José business tax.
Audit Recommendations Follow-up	<p>It is the policy of the City that audit reviews be conducted and that any resulting recommendations be implemented or otherwise resolved to the satisfaction of the City Manager, the City Auditor, and the City Council. Accordingly, the Auditor's Office, in coordination with the City Administration, monitors the implementation of audit recommendations. The City Auditor prepares a semi-annual follow-up report on the status of all unimplemented City Council-approved audit recommendations.</p>

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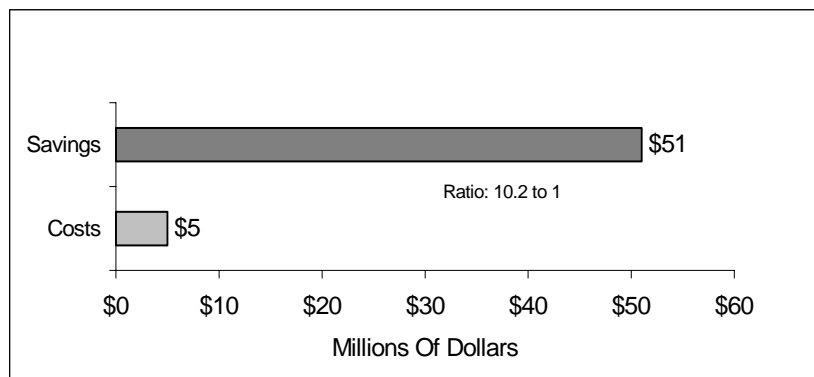
Benefits To The City Of San José

The City Auditor's expanded audit approach has benefited the City of San José in a variety of ways. Some audits have resulted in recommendations to reduce costs or increase revenues. Other audits have resulted in recommendations to increase effectiveness, use resources more efficiently, and improve internal controls, or provided objective, timely information to the City Council, City Administration, and the public.

Cost Savings And Increased Revenues

A principal objective of the Auditor's Office is to identify \$4 in savings or increased revenue for every \$1 of audit cost. The Office exceeded this objective from July 2001 through June 2003 by achieving an audit payback ratio of 10.20 in savings or increased revenue for every \$1 of audit cost. As shown in Exhibit 2, from July 2001 through June 2003, the Auditor's Office identified \$51 million in opportunities for the City to increase revenues or reduce costs as compared to audit costs of \$5 million.

Exhibit 2 Savings/Revenues Vs. Costs – July 2001 Through June 2003



As Exhibit 3 shows, from May 1985 through June 2003, the Auditor's Office identified \$191 million in cost savings or revenue enhancements against \$25 million in audit costs, achieving a 18-year audit payback ratio of nearly \$8 in savings or increased revenue for every \$1 of audit cost.

Exhibit 3 Savings/Revenues Vs. Costs – May 1985 Through June 2003

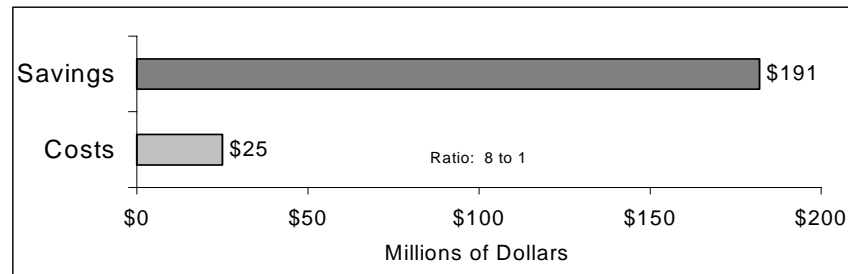
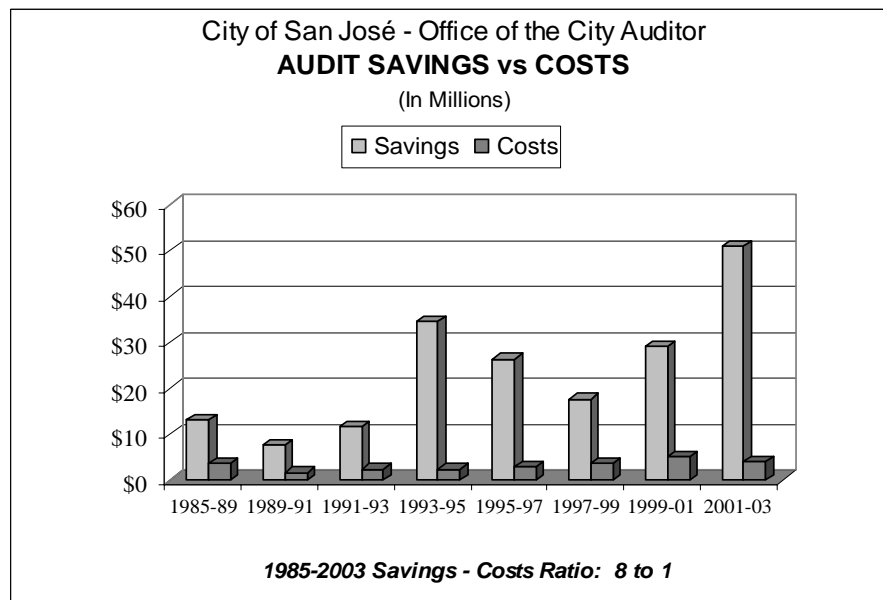


Exhibit 4 compares the cost savings or revenue enhancements against the audit costs for each reporting period from 1985-89 to 2001-2003.

Exhibit 4 Audit Savings Vs. Costs For 1985-89, 1989-91, 1991-93, 1993-95, 1997-99, 1999-2001, And 2001-2003 (In Millions)



Audit Recommendations

In addition to identifying cost savings and increased revenues, the Auditor's Office has also made audit recommendations that benefited the City in the following ways:

- **Improved Economy or Efficiency.** Audit recommendations identified ways to (a) maximize revenues or identify opportunities for new revenues or

cost savings; (b) manage or utilize its resources, including public funds, personnel, property, equipment, and space in an economical and efficient manner; and (c) identify causes or inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel, purchasing policies, and equipment.

- ***Improved Operations or Program Effectiveness.*** Audits have also helped the auditees (a) safeguard assets; (b) detect unauthorized transactions and unauthorized access to assets that could result in unauthorized acquisition, use, or disposition of assets; (c) promote accountability; (d) ensure compliance with laws, regulations, policies, procedures, or generally accepted industry standards; (e) check the accuracy and reliability of its accounting data; (f) achieve the desired program results; and (g) meet the objectives established by the City Council or other authorizing body.
- ***Provided Objective Information.*** Audit reports and special studies have also provided reliable, objective, and timely information to decision-makers and the public. This information has assisted the City Council and City Administration in making needed policy and administrative changes and has informed the public about the management of City government.

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Office Operations

Section 805 of the City Charter establishes the Office of the City Auditor and provides for the manner in which the City Council appoints the City Auditor. Specifically, Section 805 states in part:

The office of City Auditor is hereby established. The City Auditor shall be appointed by the Council. Each such appointment shall be made as soon as such can reasonably be done after the expiration of the latest incumbent's term of office. Each such appointment shall be for a term ending four (4) years from and after the date of expiration of the immediately preceding term; provided, that if a vacancy should occur in such office before the expiration of the former incumbent's terms, the Council shall appoint a successor to serve only for the remainder of said former incumbent's term.

The office of City Auditor shall become vacant upon the happening before the expiration of his term of any of the events set forth in subsections (a), (b), (c), (d), (e), (h), (i), (j), (k) and (l) of Section 409 of this Charter. The Council, by resolution adopted by not less than ten (10) of its members may remove an incumbent from the office of City Auditor, before the expiration of his or her term, for misconduct, inefficiency, incompetence, inability or failure to perform the duties of such office or negligence in the performance of such duties, provided it first states in writing the reasons for such removal and gives the incumbent an opportunity to be heard before the Council in his or her own defense; otherwise, the Council may not remove an incumbent from such office before the expiration of his or her term.

The City Council's Making Government Work Better (MGWB) and Rules Committees directly oversee the work of the City Auditor. The Rules Committee reviews and approves the City Auditor's annual audit workplan and the MGWB Committee reviews and approves audit report findings and recommendations, submits audit reports and approved recommendations to the full City Council for concurrence, and monitors the implementation of approved recommendations.

The Rules Committee also approves City Councilmember or City Administration requests for audit services as they arise during the year.

Budget

Since 1985-86, the budget of the Auditor's Office has averaged about \$1.37 million per year, with approximately 94 percent spent for salaries and benefits. City Auditor staffing has averaged 18 authorized full-time positions, including both audit and administrative staffs. In addition, the Office provides employment and training to eight part-time student interns. Exhibit 5 shows the City Auditor's adopted budget and staffing level from 1985-86 to 2001-03.

Exhibit 5 Office Of The City Auditor – Adopted Budget And Staffing Level From 1985-86 To 2001-03

Year	Positions	Personal	Non-Personal	Equipment	Total Budget
1985-86	19	\$944,919	\$92,410	\$21,647	\$1,058,976
1986-87	19	948,853	94,700	32,266	1,075,819
1987-88	19	974,660	56,475	0	1,031,135
1988-89	18	979,231	49,475	0	1,028,706
1989-90	18	1,106,756	40,025	9,100	1,155,881
1990-91	18	1,122,442	50,265	17,500	1,190,207
1991-92	17	1,158,311	50,265	40,000	1,248,576
1992-93	16	1,207,635	50,265	0	1,257,900
1993-94	15	1,097,977	31,064	0	1,129,041
1994-95	15.5	1,175,813	31,064	0	1,206,877
1995-96	16.5	1,344,464	38,836	0	1,383,300
1996-97	17	1,443,006	71,836	0	1,514,842
1997-98	17	1,508,765	160,836	0	1,669,601
1998-99	18	1,744,023	100,836	0	1,844,859
1999-00	19	1,873,985	80,304	0	1,954,289
2000-01	20	2,064,663	81,107	0	2,145,770
2001-02	20	2,217,936	83,366	0	2,301,302
2002-03	20	2,306,856	78,200	0	2,385,056

Audit Strategy

When the City Auditor assumed office in May 1985, he took immediate action to improve the efficiency and effectiveness of the Office's limited resources. He proposed to conduct the City Charter-required fiscal audits more efficiently and to secure additional staff to conduct expanded-scope performance audits.

Initially, the City Auditor reduced the staff time devoted almost exclusively to Charter-required reviews of payroll expenses, non-personal services expenses, petty cash and revenue accounts, and parking revenues.

In 1987, the Auditor's Office changed its auditing strategy to reflect new American Institute of Certified Public Accountants (AICPA) pronouncements. In pursuing this audit strategy, the Office implemented a rigorous risk assessment approach to identify any threats (unwanted events) facing the program or activity under audit and to assess those controls or procedures in place to prevent, eliminate, or minimize the threats identified. The Office's risk assessment approach to auditing is widely recognized as an industry standard, and many governmental auditing units have borrowed from and replicated the Office's auditing procedures.

**Annual Citywide
Risk Assessment**

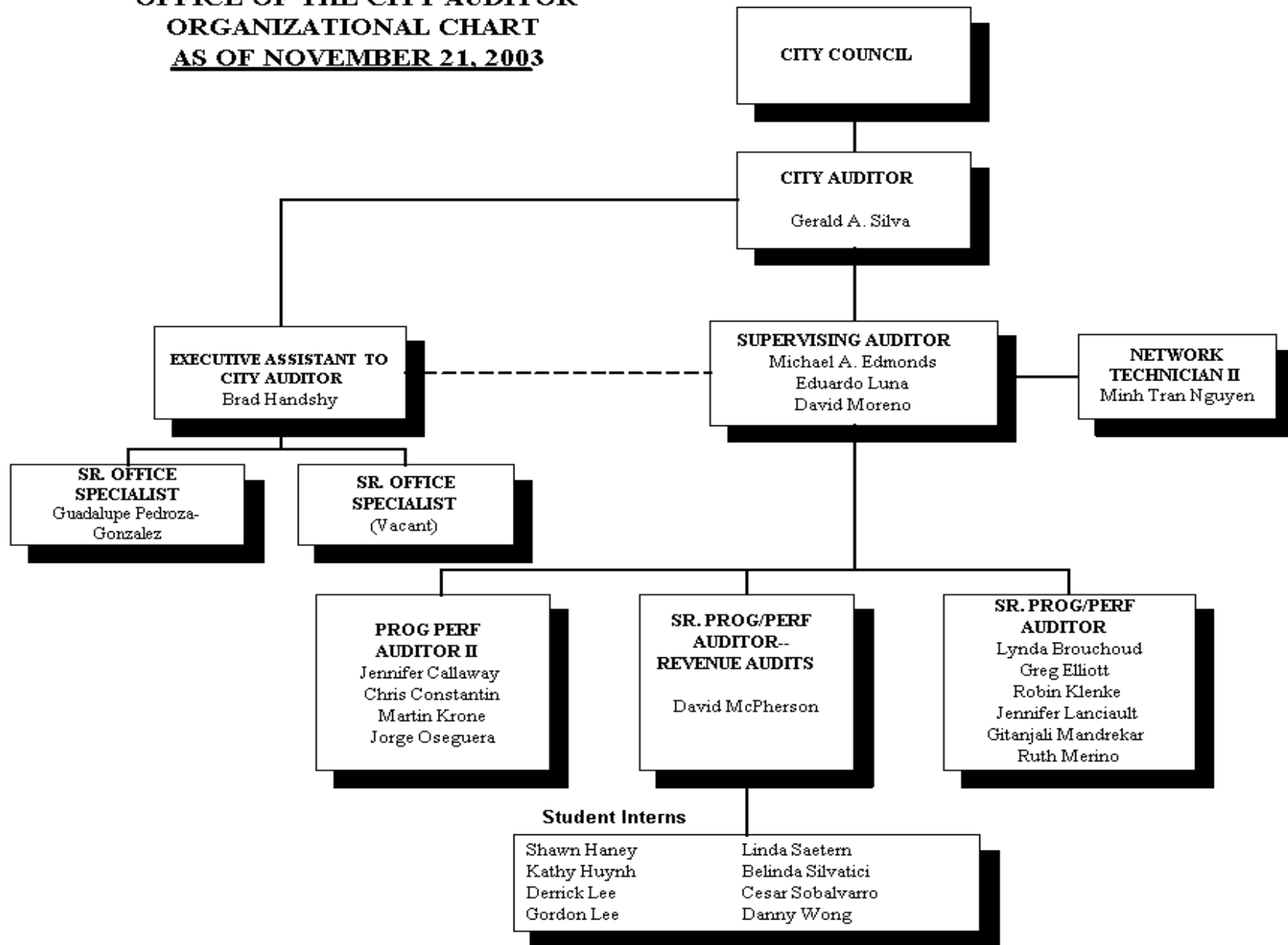
Determining which areas to audit and allocating scarce audit resources to those areas is key to a successful internal audit function. To assess the relative importance of potential audit subjects, the City Auditor's Office prepares an annual risk assessment model of the City's budgeted core services and revenue sources. For each of the City's budgeted core services and revenue sources, the Office compares the following factors: proposed expenditures, three-year expenditure trend, fund type, capital expenditures, estimated revenues, three-year revenue trend, number of staff, estimated beginning fund balance, fixed assets, audit requests, and date of last audit.

For each specific budgeted core service or revenue source, the City Auditor scores each of the above factors from 0 through 10 based on a series of tables the City Auditor designed. In addition, the City Auditor rates each of the above factors from 1 to 5 according to their relative importance to produce a weighted score for each budgeted core service or revenue source. The City Auditor then sorts these weighted scores from highest to lowest and recommends that the Rules Committee include in the City Auditor's Annual Audit Workplan those budgeted core services or revenue sources with the highest weighted scores. Because the City Auditor applies this scoring system evenly across the entire Citywide organization, it promotes a sense of fairness to auditees and helps ensure that City Auditor resources will be focused on those areas with the highest audit potential.

Office Staffing

The Auditor's Office operates with 20 authorized positions consisting of the City Auditor, four supervising auditors, eleven auditors, and four administrative staff. The Office also trains and employs eight student interns. Exhibit 6 shows the organizational chart for the Auditor's Office as of November 1, 2003.

**OFFICE OF THE CITY AUDITOR
ORGANIZATIONAL CHART
AS OF NOVEMBER 21, 2003**



**Staff Background
And Experience**

The staff of the City Auditor's Office have diverse educational backgrounds and work experience (See Exhibit 7). Staff educational backgrounds include accounting, economics, political science, business administration, education, finance, public administration, and linguistics. Further, several staff members have advanced academic degrees and/or professional certifications such as Certified Public Accountant, Certified Government Financial Manager, Certified Internal Auditor, Certified Fraud Examiner, Certified Information Systems Auditor, Certified Revenue Officer, and Certified Quality Auditor. Staff members have had previous experience in public accounting, banking, data processing, education, and health care, as well as federal, state, and local government. This wide range of training and experience brings a broad perspective to the variety of audit work the Office conducts.

Members of the staff have been officers or members in the following professional organizations: Institute of Internal Auditors, National Association of Local Government Auditors, National Intergovernmental Audit Forum, Western Intergovernmental Audit Forum, Association of Government Accountants, American Institute of Certified Public Accountants, California Society of Certified Public Accountants, California Municipal Business Tax Association, American Society for Public Administration, Association of Fraud Examiners, Information Systems Audit and Control Association, Women in Government Service, and San José Management Association.

The City Auditor is the Past Chairman of the Association of Government Accountants' State and Local Government Committee, a former member of the Board of Governors of the San José Chapter of the Institute of Internal Auditors, Past President of the National Association of Local Government Auditors, former Chairman of the Western Intergovernmental Audit Forum, former Local Government representative to the National Intergovernmental Audit Forum Executive Committee, and a former member of the American Institute of Certified Public Accountants' Members in Government Committee. In 2002, the Comptroller General of the United States appointed the City Auditor to the prestigious Advisory Council on Government Auditing Standards and in August

2003, the American Institute of Certified Public Accountants named the City Auditor as the recipient of its outstanding CPA in Government Award for 2003.

EXHIBIT 7

**OFFICE OF THE CITY AUDITOR
STAFF EDUCATION AND BACKGROUND**

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Gerald A. Silva, CPA, CGFM	City Auditor	Bachelor of Science Accounting, 1967	Advisory Council on Government Auditing Standards; Former Member of the Board of Governors, Member, IIA, San Jose Chapter; Past President, NALGA; Former Chairman, Western Intergovernmental Audit Forum; Former Local Government Representative, National Intergovernmental Audit Forum Executive Committee Member; Former AICPA Members In Government Committee; GFOA; Who's Who in Government; California & Arizona State Boards of Accountancy; Past Chairman of the AGA's State and Local Government Committee for 1997-98; Member, Financial Management Standards Board for the AGA	State Budget Director, State of Arizona Director of Program Auditing, State of Arizona Audit Manager, California Auditor General's Office Public Accounting
Nestor S. Baula, CPA, CIA, CFE, CISA (Separated from City service after June 30, 2003)	Supervising Auditor	Bachelor of Science Accounting, 1971	Member, IIA, San Jose Chapter; Member, NALGA; Member, ACFE	Senior Auditor, Castle & Cooke, Inc.
Michael Edmonds, CIA	Supervising Auditor	Bachelor of Arts Political Science, 1974	Member, IIA, San Jose Chapter; Member, NALGA; Western Region Peer Review Coordinator, NALGA	Internal Auditor, Contra Costa Water District; Staff Auditor, California Office of the Auditor General
Sharon W. Erickson, CIA, CGFM (Separated from City service during July 2001 - June 30, 2003)	Supervising Auditor	Bachelor of Arts Political Science	Member, IIA, San Jose Chapter; Member, NALGA	Controller, Smith, Erickson, McDonald, Inc.
Eduardo Luna, MPA, CGFM, CIA	Supervising Auditor	Bachelor of Science Political Science, 1987 MPA, 1989	Member, IIA, San Jose Chapter; Member, NALGA; Member, AGA	Evaluator, U.S. General Accounting Office
David Moreno, MPA	Supervising Auditor	Bachelor of Arts Political Science, 1979 MPA, 1985	Member, IIA, San Jose Chapter; Member, NALGA	High School Teacher, Fresno, CA; Senior Evaluator, U.S. General Accounting Office

Office Operations

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Lynda Flores Brouchoud, MPP	Senior Program Performance Auditor	Bachelor of Science Business Administration, 1996 MPP, 1998	Member, IIA, San Jose Chapter; Member, NALGA	Management Fellow, San Jose City Manager's Office
Gregory W. Elliott, MA	Senior Program Performance Auditor	Associate in Arts, 1987 Bachelor of Science, 1989 MA, Economics, 1992	Member, IIA, San Jose Chapter; Member, NALGA	Audit Intern, San Jose City Auditor's Office
William P. Hewitt, CIA, CISA, CFE, CQA, CGFM, CMA, CGAP (Separated from City service during July 2001 - June 30, 2003)	Senior Program Performance Auditor	Bachelor of Arts Political Science, 1965	Member, IIA; Member, Association of Certified Fraud Examiners	Internal Audit Manager, Kelly-Moore Paint Co.
Robin A. Klenke, MBA, CGFM	Senior Program Performance Auditor	Bachelor of Arts Anthropology/Linguistics, 1982 MBA, 1986	1st Vice President, IIA, San Jose Chapter; Past President, IIA, San Jose Chapter; Past President, ASPA, Santa Clara Valley Chapter; Member, NALGA	Manager/Chief Technician, El Camino Hospital
Jennifer K. Lanciault, MBA	Senior Program Performance Auditor	Bachelor of Arts French, 1993 MBA, 1997	Member, IIA, San Jose Chapter; Member, NALGA	Manager, Accenture
John LoBue, CPA, MBA (Separated from City service during July 2001 - June 30, 2003)	Senior Program Performance Auditor	Bachelor of Science Psychology, 1970 MBA, Accounting, 1976	Member, IIA, San Jose Chapter; Member, NALGA	Financial/Operational Auditor, United Water Resources; Manager Accounting Operations, Patent Construction System; Accounting Manager, Lakewood Cemetery Association; Manager Financial Special Projects & Manager Financial Reporting & Analysis, Pan American World Airways, Inc.; Director, Source Finance; Senior Accountant, Deloitte, Haskins & Sells
Gitanjali Mandrekar, MA	Senior Program Performance Auditor	Bachelor of Arts Economics, 1995 MA, Economics, 1998	Member, IIA, San Jose Chapter; Member, NALGA	Audit Intern, San Jose City Auditor's Office

Activities And Accomplishments 2001-2003

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
David McPherson, MPA, CRO	Senior Program Performance Auditor	Bachelor of Arts History, 1986 MPA, 1993	Past President, CMBTA; State President, CMRTA; Member, IIA, San Jose Chapter; Member, NALGA; Member, CROA	Revenue Technician, City of Newport Beach
Ruth Garcia Merino, CISA, CGFM	Senior Program Performance Auditor	Bachelor of Science Business Administration, Finance and Accounting, 1978	Member, IIA, San Jose Chapter; Member, ISACA; Member, NALGA	Business Banking Officer, Bank of America
Jennifer Callaway, MPA, JD	Program Performance Auditor II	Bachelor of Science Accounting, 1999 JD, 2002 MPA, 2002	Member, IIA, San Jose Chapter; Member, NALGA	Intern at the Housing Council of Monroe County, New York
Chris Constantin, MPA	Program Performance Auditor II	Bachelor of Science Industrial and Systems Engineering, 2000 MPA, 2001	Former member, National Association of Community Colleges Public Policy Committee; Member, Community College League of California; Member, GFOA; Member, IIA, San Jose Chapter; Member, NALGA; Member, AGA; Member, ACFE; Member, ASPA; Member, IIE	President of the Board, West Valley-Mission Community College District; Sales Coordinator, Adaptec Corporation
Martin Krone, MPA, CIA, CGAP, CFE, CGFM	Program Performance Auditor II	Bachelor of Science Administration, 1980 MPA, 1992	President, AGA, Silicon Valley Chapter; Past-President, IIA, San Jose Chapter; Past-President, AGA, NYC Chapter; Member, NALGA; Member, ACFE	Director of Professional Development, FEI; Assistant Director of Financial Compliance, City of New York; Auditor Supervisor, City of New York
Jorge Oseguera, MPA	Program Performance Auditor II	Public Policy & International Affairs Fellow at University of Washington, 1999 Bachelor of Arts Political Science with concentration in Public Administration, 2000 MPA, 2001	Member, IIA, San Jose Chapter; Member, NALGA; Member, AGA	Intern at the Interstate National Gas Association of America; Senior Park Aide at California Department of Parks & Recreation

Office Operations

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Brad Handshy	Executive Assistant to the City Auditor	Administrative Assistant Certificate, 1991		Desktop Publishing Assistant, VLSI Research; English Writing Sample Evaluator, East Side Union High School District
Minh Tran Nguyen, MCP	Network Technician	Associate in Arts Office Administration & Word Processing, 1985 Certificate, Netware 4 Admin, 1996; Admin MS Windows NT, 1997, Microsoft Certified Professional (MCP), 1999		Secretary, IBM Corporation
Mary DaRosa (Separated from City service during July 2001 - June 30, 2003))	Senior Office Specialist	Word Processing 1986 Clerical Support 1989		Title Examiner, American Title Insurance Company
Guadalupe Pedroza-Gonzalez	Senior Office Specialist	Bachelor of Science Business Administration, Management, 1995		Revenue Account Administrator, OnCommand Corp.

ACRONYMS

ACFE	Association of Certified Fraud Examiners	CROA	California Revenue Officers Association
AGA	Association of Government Accountants	FEI	Financial Executives International
AICPA	American Institute of Certified Public Accountants	GFOA	Government Finance Officers Association
ASPA	American Society for Public Administration	IIA	Institute of Internal Auditors
CFE	Certified Fraud Examiner	IIE	Institute of Industrial Engineers
CGAP	Certified Government Auditing Professional	ISACA	Information Systems Audit and Control Association
CGFM	Certified Government Financial Manager	JD	Juris Doctor
CIA	Certified Internal Auditor	MA	Master of Arts
CISA	Certified Information Systems Auditor	MBA	Master in Business Administration
CMA	Certified Management Accountant	MPA	Master in Public Administration
CMBTA	California Municipal Business Tax Association	MPP	Master in Public Policy
CPA	Certified Public Accountant	NALGA	National Association of Local Government Auditors
CQA	Certified Quality Auditor	POST	Peace Officer Standards and Training
CRO	Certified Revenue Officer		

**Recognition,
Appointment, And
Awards**

The Office of the City Auditor received the following recognition, appointment, and awards:

- The American Institute of Certified Public Accountants (AICPA) named the City Auditor the winner of the AICPA's 2003 Outstanding CPA in Government Award. The award was given in conjunction with the AICPA's 20th Annual National Governmental Accounting and Auditing Update Conference in Washington, DC. According to the award letter, the City Auditor's "extraordinary professional achievements and contributions to government efficiency and effectiveness are extremely impressive and reflect positively on all CPA's."
- The Comptroller General of the United States appointed the City Auditor to the Government Auditing Standards Advisory Council. This is a singular honor that is reserved for only those individuals who have made significant and ongoing contributions to the field of auditing.
- At its 2002 annual conference, the National Association of Local Government Auditors (NALGA) bestowed both of its national awards on the San José City Auditor's Office. The Lennis Knighton Award for Best Audit was awarded for the City Auditor's report, *An Audit of the Pretreatment Source Control Program* and the NALGA Award for Best Special Project was awarded for the City Auditor's project, *A Vulnerability Assessment of City Hall Building Security*. This is the first time that one local audit organization received both awards in the same year.
- At its 2003 annual conference, the National Association of Local Government Auditors awarded the San José City Auditor's Office the Lennis Knighton Honorable Mention for Best Audit. The City Auditor's office received national recognition for *An Audit of the City of San José's Customer Service Call Center*.

**Office Of The City
Auditor
Performance Audit**

The City Charter requires the Auditor's Office to undergo a peer review performance audit on a biennial basis. Specifically, Section 805.2 of the City Charter states:

The Council shall contract with an independent audit firm, which has no other contracts with the City, to conduct a performance audit of the City Auditor's office at least every two years. The report of the performance audit shall be available to the public.

The Office has undergone seven audits since the performance audit requirement was instituted. In June 1987, the Office underwent its first such performance audit. A management representative from the California Auditor General's Office performed the review according to National State Auditors Association (NSAA) standards. This initial audit focused on the Office's formal written audit and office administration procedures and controls. The purpose of the audit was to determine if the procedures and controls provided reasonable assurance that City Auditor audits would meet the specified standards. Following the audit, the Auditor General issued two letters. One letter expressed an overall unqualified (clean) opinion on the City Auditor's system of quality control. The other letter identified opportunities to improve the Office's system of quality control, all of which have been implemented.

Independent auditors conducted the Office's subsequent performance audits in 1989, 1991, 1993, 1995, 1997, 1999, 2001, and 2003. The objective of these audits was to determine the Office's compliance with generally accepted government auditing standards, based on the peer review guidelines issued by the National Association of Local Government Auditors (NALGA). The independent auditors' reports stated that the Office of the City Auditor was in compliance with Government Auditing Standards. Appendix C shows the independent auditor's 2003 report.

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City Auditor Website

In 1996, the City Auditor's Office established a Website that included the following menu items:

- Auditing City Departments and Programs
- Benefits to the City of San José
- City Auditor's Biography
- City Charter Authority
- List of Issued Audit Reports
- Sales and Business Tax Auditing

Since its inception, the City Auditor's Office has added the following menu items to its Website:

- Audit Recommendations Follow-up
- Citywide Risk Assessment
- External Quality Control Reviews of the City Auditor's Office
- Office Procedures
- Audit Programs
- Project Milestones
- Risk Assessment
- Risk Assessment Library

The City Auditor's Office Website receives over 12,000 hits per month from individuals and organizations in nearly every state in the United States and more than 20 foreign countries.

Audit organizations from around the world have recognized and praised the City Auditor's Website for its innovation and quality and its contribution to the auditing profession.

The City Auditor's Website address is
www.ci.san-jose.ca.us/auditor/www.shtml

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Summary Of Work Performed July 2001 Through June 2003

From July 2001 through June 2003, the Auditor's Office completed 19 performance/financial audit reports and special studies and 4 recommendations follow-up reports. The audit reports contained 92 recommendations to improve economy, efficiency, and effectiveness within City government. Since the City Auditor started in May 1985, the Office has made 1,272 such recommendations. To date, the City Administration and the Redevelopment Agency have fully implemented or resolved 93 percent of these recommendations. Exhibits 8 and 9 show the status of implementation and the types of recommendations made from May 1985 through June 2003. Exhibit 10 summarizes the activity costs and results for the period of July 2001 through June 2003.

Exhibit 8 Types Of Recommendations – May 1985 Through June 2003

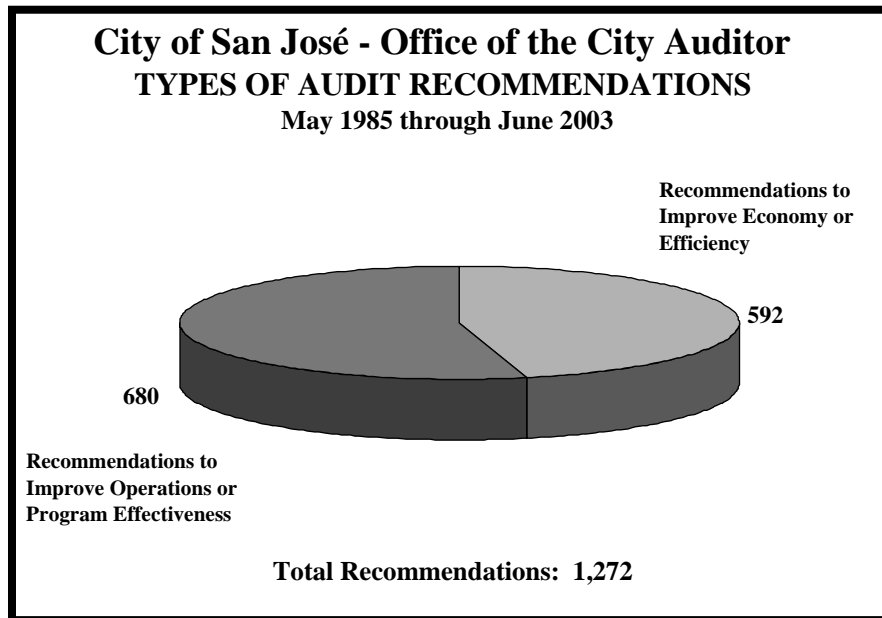


Exhibit 9 Status of Recommendations As Of June 2003

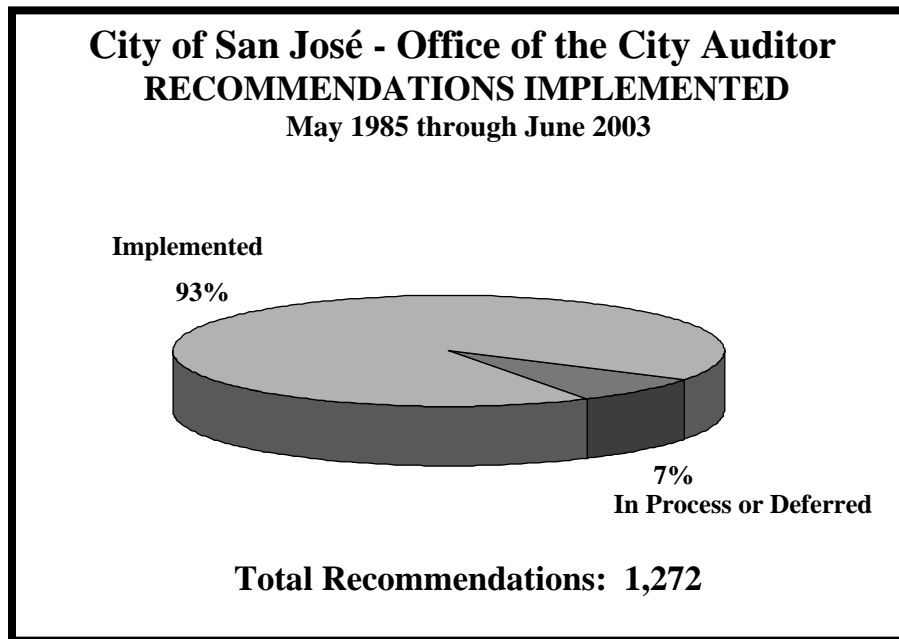


Exhibit 10

**Summary Of Activity Costs And Results
For The Period July 2001 Through June 2003**

Report Number	Date	Description	City Auditor Costs	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy Or Efficiency	Recommendations To Improve Operations Or Program Effectiveness
01-05	Oct-01	An Audit Of The City Of San José Fire Department's Strategic Plan Regarding Proposed Fire Stations	\$99,755			
02-01	Feb-02	An Audit Of The City Of San José's Rental Dispute Program	\$76,689		7	5
02-02	Mar-02	An Audit Of The San José Arena Management Corporation's Compliance With The San José Arena Management Agreement	\$32,896	\$3,252,000	6	2
02-03	Apr-02	An Audit Of The Property Management Operations Of The City Of San José's Department Of Public Works – Real Estate Division	\$86,914	\$44,677	7	5
02-04	Jun-02	An Audit Of The San José Police Department's Method Of Projecting Sworn Officer Retirements And Other Separations	\$99,317			3
02-05	Jun-02	An Audit Of The City Of San José's Customer Service Call Center	\$72,985	\$286,000		2
02-06	Jun-02	An Audit Of City Hall Departments' Petty Cash And Change Funds	\$63,127			1
02-07	Jun-02	Report On The Audit Of OCJP Grant #PR98017928 Santa Clara CAL-Gang Regional Node	\$1,941			
02-08	Aug-02	An Audit Of The School Age Growth and Enrichment Program Of The Department Of Parks, Recreation, And Neighborhood Services	\$45,273		2	3

Activities And Accomplishments 2001-2003

Report Number	Date	Description	City Auditor Costs	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy Or Efficiency	Recommendations To Improve Operations Or Program Effectiveness
02-09	Aug-02	An Audit Of The Boys And Girls Clubs Of Silicon Valley	\$51,796			
02-10	Sep-02	An Audit Of The City Of San José's Office Of Equality Assurance	\$105,922		7	3
02-11	Dec-02	An Audit Of Hayes Renaissance, L.P.'s Compliance With The Lease Agreement For The Hayes Mansion Conference Center	\$115,319	\$1,127,000	2	1
02-12	Dec-02	A Survey Of Citywide Real Property Inventory	\$17,084			
03-01	Jan-03	An Audit Of The Targeted Neighborhood Clean-up Program	\$65,619	\$324,994	3	4
03-02	Jan-03	n Audit of the West Valley-Mission Community College District and the Santa Clara County Black Chamber of Commerce Regarding the Grant Agreement to Carry Out the Technology Education Career Hub (Tech Q-III) Project in 2000-01 and 2001-02 Pursuant to the Healthy Neighborhood Venture Fund	\$36,964			
03-03	Feb-03	An Audit Of The Fleet Management Division Of The General Services Department's Vehicle Replacement Program	\$484,931	\$30,850,353	7	8
03-04	Mar-03	An Audit Of The Airport Neighborhood Services Group	\$33,547		1	3
03-05	Mar-03	An Audit Of The Customer Service Call Center's Handling Of Service Requests	\$58,863		1	4
03-06	Apr-03	Santa Clara County Cities Association Audited Financial Statements For The Years Ended June 30, 2001 and 2002	\$15,298			

Summary Of Work Performed July 2001 – June 2003

Report Number	Date	Description	City Auditor Costs	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy Or Efficiency	Recommendations To Improve Operations Or Program Effectiveness
		Bay 101 Audit	\$11,415			
		Sales and Business Tax Audits	\$292,092	\$13,138,393		
		Redevelopment Agency Development Agreements	\$130,309	\$2,047,068		
		San Jose Municipal Water	\$161,198			
		Recommendation Follow-up	\$61,503			
		Citywide Annual Audit	\$26,898			
		Training	\$138,227			
		Internal Audit Quality Control	\$108,718			
		Departmental Administration	\$670,696			
		Vacation, Holiday and Other Leave	\$827,499			
		Prior Period Costs Carryover	(\$564,376)			
		Assignments in Progress	\$1,057,593			
		Totals	\$4,486,016	\$51,070,485	45	47

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Summary Of Audit Reports And Special Studies

The following summarizes the audit reports and special studies that the Office of the City Auditor issued from July 2001 through June 2003:

#01-05 An Audit Of The City Of San José Fire Department's Strategic Plan Regarding Proposed Fire Stations (October 2001)

Opportunities Exist For The San José Fire Department To Improve Upon Its Response Times For Emergency Calls And Its Use Of Equipment And Other Resources

In October 2001, the San José Fire Department (SJFD) and its consultant, Emergency Consulting and Research Center (ECRC), submitted to the San José City Council a Strategic Plan to identify the need for and location of new fire stations in San José. We reviewed the SJFD's Strategic Plan and the data upon which the conclusions in the Strategic Plan were predicated and found that:

- The response time information in the Strategic Plan appears to be accurate and reliable. However, as a result of input we provided during the course of our audit, we project that the SJFD will reduce dispatch times by an estimated 10 seconds for most emergency calls transferred from the San José Police Department (SJPD) and by as much as 42 seconds for certain types of emergency calls and
- Of the five proposed new fire stations in the Strategic Plan
 - The fire station proposed for the Berryessa area appears to be justified;
 - The proposed Blossom Hill, Yerba Buena, and Communications Hill stations are proximate to existing fire stations with high core emergency call volume and number of calls not meeting the 4-minute travel and 8-minute total reflex time¹ targets; and
 - The proposed Communications Hill station is part of a development agreement and the proposed North Coyote Valley station is dependent upon future growth in that area.

We predicated our aforementioned opinion regarding the proposed Berryessa fire station based upon an extensive

¹ Total reflex time is comprised of call processing, turnout and travel time intervals.

analysis of travel and total reflex time data for the geographical area of the proposed station. However, at the time of our audit, similar information regarding the geographical areas for the proposed Yerba Buena and Blossom Hill stations was not available. The City Auditor's Office could perform the same detailed analyses for these two fire stations as it did for the proposed Berryessa fire station should the SJFD provide us with the necessary geographical data and the City Council direct us to do the analyses.

While adding new fire stations is one means to improve upon the SJFD's response times to emergency calls, it is also the most costly in terms of capital costs and operating expenses. In our opinion, adding new fire stations should be evaluated in concert with other opportunities to enhance the SJFD's ability to respond to emergency calls. Specifically, these other opportunities include:

- Reducing the volume of calls to which the SJFD must respond by using an expanded medical priority dispatch system;
- Using Quint Companies to provide better truck coverage in the perimeter areas of the City; and
- Using other Emergency Medical Services (EMS) delivery vehicle and configuration options.

These other opportunities will enhance the SJFD's ability to respond to emergency calls. Further, these other opportunities will save wear and tear on costly SJFD fire fighting vehicles and equipment and help ensure that these vehicles and equipment will be available in the event they are needed to fight a fire or perform rescue type operations.

RECOMMENDATIONS

We recommend that the San José Fire Department:

- Recommendation #1 Obtain a legal opinion on the use of the Silver Creek Development Integrated Finance and Improvement District funds for a new fire station. (Priority 3)**

We recommend that the City Council:

- Recommendation #2** **Direct the City Auditor to perform detailed analyses on the 2000-2001 workload, travel time, and total reflex time performance for the geographic areas specific to the proposed Yerba Buena and Blossom Hill fire stations. (Priority 3)**

We recommend that the San José Fire Department:

- Recommendation #3** **Develop for City Council consideration plans for expanding its use of the Omega priority response level. These plans should include: obtaining the software necessary to fully implement the Omega priority response level; options and costs for dispensing non-emergency medical advice; and any other issues that need to be addressed. (Priority 3)**

Accordingly, we recommend:

- Recommendation #4** **That should the San José Fire Department opt to convert some Engine Companies to Quint Companies, that it also reevaluate its existing Engine and Truck Companies to convert one to a Quint company. (Priority 3)**

We recommend that the San José Fire Department:

- Recommendation #5** **Implement a pilot project to evaluate the use of SUVs or Light Units to respond to lower priority emergency medical calls. (Priority 3)**

**#02-01 An Audit Of The City Of San José's Rental Dispute Program
(February 2002)**

*Opportunities Exist
For The Rental
Dispute Program To
Increase Its
Efficiency And
Improve Its
Effectiveness*

During our audit of the Rental Dispute Program (Program) we identified that the Program did not have adequate management information to facilitate Program administration or informed policy making decisions. Accordingly, we worked with Program management to develop a form to capture the amount of time Program staff spent on various activities and specific information regarding the people the Program serves. We also worked with Program management to compile and summarize the workload and service recipient information Program staff

recorded from October 9, 2001 to December 7, 2001. Based upon our analysis of this workload and service recipient information we identified the following:

- On average, each Program staff member spends 69 minutes a day on the phone assisting callers;
- Half of all callers to the Program are not living in structures covered under the rent control ordinances;
- Tenants represented 68 percent of all callers to the Program;
- Of the calls to the Program, 11 percent were about evictions;
 - Based on five weeks of data, of the callers to the Program who were concerned about evictions, 65 percent lived in apartment complexes with fewer than ten units;
- Program staff referred half of all callers to other organizations;
- Program staff directed most of its referred callers to Bay Area Legal Aid and the Legal Aid Housing Program;
- Of the callers to the Program, four percent did not speak English; and
- Only two percent of callers to the Program cited the Program's outreach efforts as their source of Program awareness.

Given the above information, in our opinion, the Program can improve its efficiency and effectiveness by:

- Maintaining adequate management information and automating its data collection efforts; and
- Improving Program outreach through partnership strategies and targeted education.

In addition, the Program can further improve its effectiveness by:

- Developing written office procedures, cross-training staff, and developing a Program purpose statement with corresponding goals, objectives, and performance indicators;

- Improving the Program website by updating the home page with an easy-to-use menu and providing additional information and links to other organizations;
- Installing a call answering system to ensure 24-hour, multi-lingual service; and
- Providing the commissions with better service.

Finally, by implementing the above recommendations, the Program should have sufficient resources available to implement additional Rental Dispute Program initiatives.

Accordingly, we recommend that the City Council approve or forward to the Task Force for consideration any Ordinance amendments that will 1) enhance the Program's effectiveness by making it more proactive in the areas of tenant eviction and rental increases, and 2) provide the City Council and other rent control stakeholders with significantly more and better information for policy-making purposes.

RECOMMENDATIONS

We recommend that the Program:

- | | |
|--------------------------|--|
| Recommendation #1 | Continue recording and compiling data on the Service Request form, analyzing the data on a weekly basis, and automate the data collection system. (Priority 3) |
| Recommendation #2 | Require staff to complete the weekly activity logs for compilation and analysis purposes. (Priority 3) |
| Recommendation #3 | Collect and analyze apartment complex size data for those callers who are concerned about evictions. (Priority 3) |
| Recommendation #4 | Build stronger partnerships with Community-Based Organizations, provide Program and Ordinance information to those persons and organizations most affected by rent control, and target outreach dollars to specific geographic areas and non-English speaking residents. (Priority 3) |

We recommend that the Program:

- Recommendation #5** **Update its written office procedures and job descriptions, develop a Program purpose statement, goals, objectives, and performance indicators that align with the Program description in the ordinances and cross-train its staff to ensure that staff illness does not adversely affect the Program. (Priority 3)**
- Recommendation #6** **Update its website with an easy-to-use menu, additional Program information, and links to other organizations including the City’s Housing Department website. (Priority 3)**
- Recommendation #7** **Work with the Information Technology Department to improve service levels and ensure 24-hour service via an informative, user-friendly, and multi-lingual call answering system. (Priority 3)**
- Recommendation #8** **Assist commissioners by:**
- **Actively recruiting commissioners when commission membership is inadequate;**
 - **Producing monthly reports for commission meetings, including an analysis of data collected through the Service Request forms;**
 - **Assisting with appropriate special studies;**
 - **Providing an orientation on City Municipal Code and ordinance-required commission responsibilities; and**
 - **Incorporating statistics on calls to the Program in its annual reports to both commissions. (Priority 3)**

We recommend that the Advisory Commission on Rents:

- Recommendation #9** **Increase meeting frequencies from bi-monthly to monthly. (Priority 3)**

We recommend that the Program:

- Recommendation #10** **Provide landlords with information brochures in at least three languages--English, Spanish, and Vietnamese. (Priority 3)**

We also recommend that the City Council:

- Recommendation #11** Approve the ordinance amendments the Task Force has proposed and/or is considering requiring landlords to provide the Program copies of 30-day eviction notices and tenant information permitting easy Program verification of rent before and after eviction. (Priority 3)
- Recommendation #12** Forward to the Task Force for its consideration an additional ordinance amendment that 30-day eviction notices are submitted under penalty of perjury and subject to audit and Program pre-approval of rent increases in excess of the ordinance maximum. (Priority 3)

#02-02 An Audit Of The San José Arena Management Corporation's Compliance With The San José Arena Management Agreement (March 2002)

*Arena Management
And The City Of
San José Need To
Establish Formal
Procedures Over
The Luxury Suite
Fee Process*

On August 1 of each year, the San José Airport Neighborhood Services Group Arena Management Corporation (Arena Management) is required to pay the City of San José (City) for Arena fees that are due. These fees include a fixed payment, Luxury Suite Net Revenues (suite revenues), and parking fees. Arena Management calculates its suite revenue payments based on an estimate of the number of suites that will be leased for the year. We found that Arena Management miscalculated the 1999-2000 suite revenue payment because it deducted too much in deemed hockey ticket proceeds. As a result, Arena Management unintentionally underpaid the City about \$40,000 for the 1999-2000 suite revenue payment. It should be noted that after we discussed this underpayment with Arena Management, they promptly paid the City an additional \$40,000 in June 2000. We also found that the Management Agreement allowed Arena Management to keep \$111,000 of the City's revenues for nearly a year. In our opinion, both Arena Management and the City need to establish formal procedures for the Luxury Suite fee process.

RECOMMENDATIONS

We recommend that Arena Management:

- Recommendation #1** Develop written procedures for calculating the annual Arena fees payment to the City and include in those new procedures estimating luxury suite revenues based upon prior years' luxury suite leasing history. (Priority 2)

We recommend that the City Manager's Office:

Recommendation #2 Assign responsibility for reviewing and approving the annual Arena fees payment. (Priority 3)

Arena Management Is Not Complying With All Of The Reporting Requirements In The Management Agreement

The San José Arena Management Agreement (Management Agreement) requires the San José Arena Management Corporation (Arena Management) to submit reports and financial statements to the City of San José (City). The purpose of these reports is to provide the City with the information it needs to monitor those Arena activities and operations in which the City has a direct financial interest. We found that Arena Management has not provided the City with the required reports and statements. As a result, the City is not receiving all of the information the Management Agreement requires to assist the City in monitoring those Arena activities and operations in which it has a direct financial interest.

RECOMMENDATIONS

We recommend that Arena Management, the Arena Authority, and the City Attorney's Office:

Recommendation #3 Develop a mutually agreeable delivery schedule regarding the frequency of the detailed reports and records relating to the City Related Accounts. (Priority 3)

We recommend that Arena Management:

Recommendation #4 Provide the past and future City Income Reports and Audit Reports in accordance with the Management Agreement. (Priority 3)

We also recommend that the City Manager's Office:

Recommendation #5 Assign responsibility for ensuring that Arena Management submits all Management Agreement-required reports. (Priority 3)

*The City And
Redevelopment
Agency Need To
Resolve Possessory
Interest Tax
Deduction Issues*

The San José Arena Management Agreement (Management Agreement) between the City of San José (City) and San José Arena Management Corporation (Arena Management) allows Arena Management to deduct certain possessory interest property taxes (possessory interest taxes) from the Arena fees it pays to the City. A separate agreement between the Redevelopment Agency (Agency) and the City requires the Agency to reimburse the City for possessory interest tax deductions that Arena Management deducts from its payment to the City. During our audit of Arena fees, we found that the Agency had not reimbursed the City for three years of Arena Management's possessory interest tax deductions totaling \$1,521,474. Accordingly, the City Auditor recommended that the City bill the Agency for the \$1,521,474. Subsequently:

- The Agency only reimbursed the City \$1,086,028 of the \$1,521,474 in possessory interest taxes Arena Management deducted from its 1997-1998, 1998-1999, and 1999-2000 Arena fee payments to the City because, at the time, Santa Clara County (County) had not paid the Agency all of the possessory interest taxes it was due;
- Over the last two years, the City has billed the Agency another \$525,022 and \$532,596 for the possessory interest taxes Arena Management deducted from its 2000-2001 and 2001-2002 Arena fee payments to the City; and
- The Agency has only reimbursed the City \$497,969 of these additional billings because of questions over the amount of possessory interest taxes that the County has paid it.

Thus, as of January 1, 2002, the Agency has not reimbursed the City a total of \$995,095 in possessory interest taxes that Arena Management deducted from the Arena fees it paid to the City because of questions over the amount of these monies it received from the County.

The City Auditor's Office has worked with the County to secure for the Agency all of the possessory interest taxes that Arena Management has deducted from its Arena fee payments. In January 2002, the County paid the Agency \$1,378,492 for possessory interest taxes that Arena Management had previously paid to the County. Our analysis indicates that the Agency has received all but about \$37,000 of the possessory

interest taxes that Arena Management deducted from its Arena fees. Therefore, the Agency should reimburse the City's General Fund approximately \$958,000. In addition, the Agency, the City Attorney's Office, the City Manager's Office, and Arena Management should work together to determine how Arena Management should calculate its possessory interest tax deduction. Finally, the City needs to bill the Agency for Arena Management's possessory interest tax deductions in a more timely manner. In our opinion, the City, the Agency, and Arena Management need to resolve the possessory interest tax deduction issues in order to ensure that the City is promptly and equitably reimbursed.

RECOMMENDATIONS

We recommend that the Redevelopment Agency:

Recommendation #6 Pay the City \$958,000 for Arena Management's possessory interest tax deductions. (Priority 1)

We also recommend that the Agency, the City Attorney's Office, the City Manager's Office, and Arena Management:

Recommendation #7 Work together to determine how Arena Management should calculate its possessory interest tax deduction. (Priority 2)

We also recommend that the City:

Recommendation #8 Establish a procedure to immediately bill the Agency for Arena Management's possessory interest tax deductions when it receives Arena Management's annual Arena fee payment. (Priority 2)

#02-03 An Audit Of The Property Management Operations Of The City Of San José's Department Of Public Works – Real Estate Division (April 2002)

The City Council Should Revisit Its Policy On Non-Profit Leases Of City-Owned Property At Below Market Rents

The City of San José (City) leases City-owned land and buildings to 12 non-profit entities at below market rents. City Council Revised Policy 7-1 governs the use of non-profit leases of City-owned land and buildings. We found that the Administration has had difficulty ensuring compliance with City Council Policy 7-1. Specifically, we found that none of the 12 non-profit leases complied with all of City Council Policy 7-1's requirements. In addition, we found that

- Certain requirements in City Council Policy 7-1 are subjective and difficult to measure;
- Non-profits have used City-owned land and buildings for an average of 20 years, with one non-profit using a City-owned facility for over 50 years;
- The fair market annual rental value for the City-owned land and buildings non-profits lease is nearly \$540,000;
- Non-profit leases lack provisions to compel compliance with City Council Policy 7-1;
- The lack of a formal application process for non-profit leases of City-owned land and buildings exposes the City to the risk that some non-profits could receive preferential treatment from the City;
- There is limited City staff oversight of non-profit leases;
- Four of the 12 non-profit leases had expired from two to 24 years ago; and
- Three of the 12 non-profits leasing City-owned land and buildings did not have proof of insurance on file with the City.

Accordingly, in our opinion, the City Council should revisit its policy on non-profit leases of City-owned land and buildings. In addition, the Administration/Department of Public Works/Real Estate Division should 1) add language in leases of City-owned land and buildings to compel non-profits to comply with City Council Policy 7-1; 2) establish a formal application process for non-profits leasing City-owned land and buildings; and 3) designate a staff person to oversee all aspects of non-profit leases of City-owned land and buildings. By so doing,

the Administration will be better able to enforce the City Council's intent regarding non-profit leases of City-owned land and buildings.

RECOMMENDATIONS

We recommend that the City Council:

Recommendation #1 Revisit its policy on non-profit leases of City-owned properties. (Priority 2)

We also recommend that the Administration/Department of Public Works/Real Estate Division:

Recommendation #2 Include language in its leases with non-profits requiring the annual submission of documents to the Division to facilitate an annual review. (Priority 3)

Recommendation #3 Establish a formal application process for non-profit leases of City-owned property including the submission of key non-profit background information. (Priority 3)

Recommendation #4 Designate a staff person to monitor non-profit leases and ensure that these leases are renewed in a timely manner, have appropriate insurance, and are in compliance with Revised City Council Policy 7-1 on Below Market Rents provision. (Priority 3)

The Department Of Public Works Needs To Ensure That Leases Of City-Owned Property Are Properly Invoiced, Adjusted, And Collected

The City of San José (City) has 24 leases of City-owned land and buildings with private parties. These leases generate about \$167,000 per year in rental income to the City. We found that the Fiscal Division of the Public Works Department was not properly invoicing some private entity tenants. For example, the Division 1) has incorrectly invoiced two tenants resulting in underpayments to the City since 1990 of about \$43,000; 2) has not invoiced some tenants on a timely basis; and 3) did not properly assess one tenant a \$677 late payment penalty. Further, we found that the Real Estate Division of the Public Works Department 1) did not match private entity lease payment amounts to the amounts invoiced and collected and 2) did not properly adjust rent amounts by almost \$1,000 for three private entity leases.

In our opinion, there are two primary causes for the problems we identified. First, the Real Estate and Fiscal Divisions have not finalized each division's rental administration responsibilities. Secondly, the administration of City-owned property leases to private entities is decentralized among several City departments and divisions with no one City entity overseeing the entire process. As a result, the Fiscal Division did not invoice or correctly invoice or collect rents from some private entity tenants. In addition, some private entity tenants did not maintain required insurance coverages. Accordingly, we recommend that the Department of Public Works: 1) initiate appropriate collection efforts for unpaid rents; 2) review its leases of City-owned property with private entities for proper invoicing and collection; 3) establish procedures to ensure that private entity leases of City-owned property are properly invoiced and collected; 4) designate specific Fiscal and Real Estate Division responsibilities for the leasing of City-owned property to private entities; and 5) make the Real Estate Division responsible for overseeing the entire leasing of City-owned property to private entities.

RECOMMENDATIONS

We recommend that the Department of Public Works:

- Recommendation #5** **Work with the City Attorney's Office on how best to resolve underpaid and overpaid rents. (Priority 2)**
- Recommendation #6** **Identify all Real Estate leases with late payment penalty provisions and establish procedures to ensure that late payment penalties are properly assessed. (Priority 3)**
- Recommendation #7** **Review all of its leases of City-owned property with private entities and ensure that the Fiscal Division has been invoicing tenants for the proper amount of rents and invoice tenants for any amounts owed. (Priority 2)**
- Recommendation #8** **Establish a process to ensure that the Fiscal Division invoices tenants on a consistent and continuous basis until the tenant vacates the property or until there is a change in property ownership. (Priority 2)**

We recommend that the Department of Public Works and the Finance Department:

Recommendation #9 Identify the leases for which there are past due payments and initiate appropriate collection efforts. (Priority 2)

We recommend that the Department of Public Works:

Recommendation #10 Establish a reconciliation process and formal procedures to ensure that leases of City-owned property are correctly invoiced and collected. (Priority 2)

Recommendation #11 Assign responsibility for calculating rent adjustments on City-owned property and establish policies and procedures to effectuate that assignment. (Priority 3)

Recommendation #12 Assign to the Real Estate Division the responsibility for providing oversight over leases of City-owned property. (Priority 2)

#02-04 An Audit Of The San José Police Department's Method Of Projecting Sworn Officer Retirements And Other Separations (June 2002)

The San José Police Department Can Improve Upon Its Method For Projecting Future Sworn Officer Retirements

A review of SJPd sworn officer retirements information indicates that the SJPd's current methodology for estimating sworn officer retirements is adequate in the short-term. However, sworn officer demographics indicate the potential for a significant increase in the retirement-eligible population in the moderate to long-term. Because the SJPd's current methodology lacks demographic considerations, there is a risk of underestimating future retirements.

In our opinion, the SJPd can address this risk by expanding its current methodology for projecting sworn officer retirements to include the longer-term impact of retirements using demographic considerations.

RECOMMENDATIONS

We recommend that the San José Police Department:

Recommendation #1 Expand its current attrition-based approach for projecting sworn officer retirements to include the longer-term impact of retirements using demographic considerations. (Priority 3)

*The City Of San José
And San José Police
Department Need To
Address Other
Sworn Officer
Retirement Issues*

During our audit of the San José Police Department (SJPD) approach for estimating sworn officer retirements, we identified the following additional sworn officer retirement issues:

- The effect retirement plan changes can have on sworn officer retirements and
- A Regular Deferred Retirement Option could potentially improve sworn officer retirement predictability and retention.

In our opinion, the SJPD can address these sworn officer retirement issues by 1) evaluating the impact that any proposed retirement plan changes could have on future sworn officer retirements and 2) determining the feasibility of designing a Regular Deferred Retirement Option Plan that improves sworn officer retention and retirement predictability without being cost prohibitive.

RECOMMENDATIONS

We recommend that the San José Police Department:

Recommendation #2 Evaluate the impact of any proposed retirement plan changes on future sworn officer retirements. (Priority 3)

We recommend that the City Administration:

Recommendation #3 Determine the feasibility of designing a Regular Deferred Retirement Option Plan that improves sworn officer retention and retirement predictability without being cost prohibitive. (Priority 3)

**#02-05 An Audit Of The City Of San José's Customer Service Call Center
(June 2002)**

*The City Council
Should Consider
More Efficient
Staffing Options For
The Call Center
Which Could Save
The City As Much As
\$365,000 Per Year*

The City of San José's (City) Call Center answers questions and responds to resident concerns 24 hours per day, 7 days a week. We found that the Call Center's call volume does not support 24-hours-per-day, 7-days-a-week staffing. In our opinion, using an answering service to handle off-peak hours calls could reduce Call Center costs by as much as \$365,000 per year without adversely impacting current service levels. Accordingly, we recommend that the City Council and the Administration consider using an answering service to handle

the Call Center's off-peak hours calls and that the Office of Employee Relations review any labor relations implications resulting from using an answering service to handle the Call Center's off-peak hours calls.

RECOMMENDATIONS

We recommend that the City Council and the Administration:

Recommendation #1 Consider using an answering service to handle the Call Center's off-peak hours calls. (Priority 2)

We also recommend that if Recommendation #1 is approved, the Office of Employee Relations:

Recommendation #2 Review any labor relations implications resulting from using an answering service to handle the Call Center's off-peak hours calls. (Priority 3)

#02-06 An Audit Of City Hall Departments' Petty Cash And Change Funds (June 2002)

*The City Of San José
City Hall
Departments Are
Generally In
Compliance With
Petty Cash And
Change Fund
Procedures But
Improvements Are
Possible*

We found that San José City Hall departments' internal controls over their Petty Cash and Change Funds are generally adequate regarding (1) physical security of funds, (2) required custodianship and transaction documentation for each fund, and (3) the filing of annual petty cash and change fund confirmation memoranda with the Finance Department. However, we noted some noncompliance with procedures during our review. Specifically, we found the following:

- although the Finance Department implemented a prior audit report's recommendation to distribute a memorandum directing that departments comply with the Financial Administrative Manual (FAM) Petty Cash and Change Funds procedure, most City Hall departments are still not complying with specific procedures to (1) document the fund reconciliation when there is a change of custodianship and (2) periodically spot-audit all cash funds;
- three departments in 1999-00 and two departments in 2000-01 omitted the required charge account number from a significant number of their Petty Cash Reimbursement forms; and

- 16 funds' petty cash replenishment requests were not always timely.

In our opinion, the Finance Department should distribute another memorandum to all City departments specifically directing compliance with the FAM procedures to

- 1) document that a fund reconciliation was performed whenever fund custodianship changes,
- (2) periodically spot-audit all cash funds,
- (3) ensure that all required information is properly recorded on the Petty Cash Reimbursement forms, and
- (4) replenish their petty cash funds in accordance with procedures before they are approximately 75 percent expended.

By so doing, internal controls over the funds will be improved, security over the City's assets will be strengthened, and petty cash and change funds will be available when employees need to use them.

RECOMMENDATIONS

We recommend that the Finance Department:

- Recommendation #1 Distribute a memorandum to all City departments specifically directing compliance with the FAM procedures to:**
- **document that a fund reconciliation was performed whenever fund custodianship changes;**
 - **periodically spot-audit all cash funds;**
 - **ensure that all required information is properly recorded on the Petty Cash Reimbursement forms; and**
 - **replenish their petty cash funds before they are approximately 75 percent expended. (Priority 3)**

#02-08 An Audit Of The School Age Growth and Enrichment Program Of The Department Of Parks, Recreation, And Neighborhood Services (August 2002)

*Parks, Recreation,
And Neighborhood
Services
Management Can
Benefit From
Additional SAGE
Program Statistics*

In 2001-02, the City of San José (City) operated 85 after-school programs at City facilities, elementary schools and middle schools. Parks, Recreation, and Neighborhood Services (PRNS) manages its School Age Growth Enrichment (SAGE) program in a decentralized, geographic manner. On a monthly basis, PRNS managers receive monthly summary reports detailing statistics on after-school programs—SAGE, Literacy, Education, Arts, Recreation Nurtures Students Program

(LEARNNS), and After-School Enrichment Program (ASEP). While this information is useful, additional program information would enhance PRNS managers' ability to evaluate SAGE. We reviewed key program statistics for all 85 program sites by City Council District (Community Service Area), school type, and program type. We found important differences in the program type, school type, and program location. We compared SAGE, LEARNNS, and ASEP program statistics for September 2001 through March 2002 and identified the following:

- Nine of ten Community Service Areas' daily staffing levels were below recommended levels;
- Only 14 percent of the SAGE elementary school sites had student-to-staff ratios that were within the recommended guidelines;
- Average daily site attendance ranged from 32 students in Community Service Area 7 to 63 students in Community Service Area 5;
- Average daily attendance varied from 24 students at SAGE city facilities to 78 students at LEARNNS elementary school sites;
- 60 percent of the SAGE elementary school sites averaged less than 50 students per day;
- 42 percent of the students signed up to participate in the City's after-school programs actually attended such programs;
- 60 percent of the students signed up to participate in LEARNNS elementary school programs attended on a daily basis compared to 36 percent of SAGE elementary school students;
- Only 9 percent of the school population participated in after-school programs; and
- Only 15 percent of the school population participated in ASEP and LEARNNS elementary school programs compared to less than nine percent of SAGE elementary school students.

In our opinion, PRNS management should use the results of our analysis in responding to the Mayor's March Message for 2002-2003, to conduct a thorough inventory and analysis of the City's current after-school programs. PRNS management should augment its management reports by including statistics

on staffing ratios, average daily attendance, program participation, and school enrollment. Further, PRNS should use this information to evaluate program sites that may be operating below standards. In addition, PRNS should establish a process to notify those parents who wish to be informed when their child does not attend the after-school program for which the parent enrolled the child. Finally, PRNS needs to improve its website to make more comprehensive information available to students and parents.

RECOMMENDATIONS

We recommend that Parks, Recreation, and Neighborhood Services:

Recommendation #1 **Establish a process to notify those parents who wish to be informed when their child does not attend the after-school program for which the parent enrolled the child. (Priority 3)**

Recommendation #2 **Modify its monthly reports to include the following performance measures:**

- **staffing ratios;**
- **average daily attendance;**
- **average daily attendance as percent of enrolled students; and**
- **average daily attendance as percent of student body enrollment.**

Additionally, 1) establish a process to ensure that students are counted consistently and correctly and 2) develop a standard for assessing middle school participation. (Priority 3)

We recommend that Parks, Recreation, and Neighborhood Services:

Recommendation #3 **Use the management information in this report in responding to the Mayor's March 2002 message to establish a process to review after-school sites to ensure that most, if not all, sites operate within recommended staffing ratios. (Priority 3)**

We recommend that Parks, Recreation, and Neighborhood Services:

Recommendation #4 **Use the management reports and performance indicators to review program participation and identify sites that**

- **average less than 50 students per day;**
- **have low average daily attendance as a percent of enrolled students; and**
- **have low average daily attendance as a percent of total student body enrollment.**

Once these below-standard sites are identified, PRNS needs to consider additional marketing efforts or possible program consolidation with other sites. (Priority 3)

Recommendation #5 **Revise its website to include more comprehensive information on the location, hours of operation, and registration requirements for SAGE, LEARNS and ASEP programs. Additionally, program management should forward PRNS's website address to school districts and school sites with SAGE-related programs to allow for easier posting of website information. (Priority 3)**

**#02-10 An Audit Of The City Of San José's Office Of Equality Assurance
(September 2002)**

*Improvements Are
Needed To Better
Enforce The City's
Prevailing Wage
And Living Wage
Resolutions*

As part of the labor compliance function, the Office of Equality Assurance (OEA) monitors and enforces the Prevailing Wage and the Living Wage Resolutions. This involves reviewing City contracts and ensuring contractor compliance with the resolutions. We found that improvements were needed in certain aspects of the OEA's functions. Specifically we found:

- the number of contracts each contract compliance specialist monitored varied from 62 contracts a year to 310 contracts per year;
- OEA staff did not ensure compliance with the City's Prevailing Wage and Living Wage Resolutions in almost 58 percent of the service and maintenance cases we sampled;
- OEA staff did not consistently withhold payments from non-complying contractors and did not track the number of times the withholding of payment was used to

compel contractors to provide requested documents;

- the OEA lacks formal withholding procedures and guidance to staff on enforcing the Prevailing and Living Wage Resolutions;
- Purchasing did not check off appropriate Prevailing and Living Wage boxes for 37 percent of the Purchase Orders we sampled; and
- the OEA does not impose financial penalties on contractors that fail to submit requested documents in a timely manner.

In our opinion, the OEA needs to review the workload among construction contract compliance specialists. The OEA also needs to develop procedures on Prevailing Wage and Living Wage Resolutions enforcement, to ensure that staff

1) consistently uses all available enforcement tools and
2) follows-up with those contractors who do not send in requested documents. Further, the City Attorney's Office should advise if and when the City should withhold payments to construction and service and maintenance contractors. In addition, the City Council should revisit and consider expanding the enforcement tools the Living Wage Policy recommends to ensure that contractors comply with the resolutions. Additionally, Purchasing needs to develop a formal process to ensure that the OEA is consistently informed of all awarded contracts that are subject to the Prevailing Wage and Living Wage Resolutions. Further, the OEA should impose financial penalties on contractors who willfully or blatantly violate the City's Prevailing Wage or Living Wage Resolutions. Finally, the OEA should submit to the City Council an evaluation on the advantages and disadvantages of becoming a designated Labor Compliance Program.

RECOMMENDATIONS

We recommend that the Office of Equality Assurance:

- | | |
|--------------------------|--|
| Recommendation #1 | Review the workload among construction contract compliance specialists and require staff to document when they received and reviewed compliance documents. (Priority 3) |
| Recommendation #2 | Develop Prevailing and Living Wage Resolutions enforcement procedures including the requirement that staff document when contractors return requested |

compliance documents. (Priority 3)

In addition, we recommend that the City Attorney's Office:

Recommendation #3 Advise if and when the City should withhold payments to construction and service and maintenance contractors. (Priority 3)

We also recommend that the City Council:

Recommendation #4 Revisit its Living Wage Resolution and consider specifying the withholding of payments to contractors as a means to compel contractors to comply with OEA requests for documents. (Priority 3)

We also recommend that the Office of Equality Assurance:

Recommendation #5 Develop Prevailing Wage and Living Wage Resolutions enforcement procedures including the use of withholding payments to non-compliant contractors and tracking the number of times the withholding of payments was used as an enforcement tool. (Priority 3)

Moreover, we recommend that Purchasing:

Recommendation #6 Formally inform its Buyers of the importance of checking off Prevailing and Living Wage boxes on Purchase Orders and forwarding those Purchase Orders to the OEA for Prevailing and Living Wage Resolutions review and enforcement. (Priority 3)

Further, we recommend that the Office of Equality Assurance:

Recommendation #7 Impose financial penalties on contractors who willfully or blatantly violate the City's Prevailing Wage or Living Wage Resolutions. (Priority 2)

Recommendation #8 Submit to the City Council an evaluation of the advantages and disadvantages of becoming a designated Labor Compliance Program. (Priority 3)

*There Appears To Be
Insufficient
Workload To Justify
Current Fair
Employment And
Disability Access
Staffing*

The Fair Employment and Disability Access (FEDA) staff is responsible for implementing the City's employment policies.² In order to do so, Fair Employment and Disability Access staff investigate and resolve (1) City employee and applicant complaints of harassment and discrimination for employment and (2) disability access complaints that users of City services file. During our review of the FEDA section we found that:

- the OEA investigates an average of 38 harassment and discrimination cases yearly;
- the current FEDA section workload is insufficient to justify three staff persons;
- the OEA overstated the number of hours that staff spent training City employees; and
- in 2002-03 the Administration moved the FEDA to the Office of Employee Relations in the City Manager's Office.

In our opinion, the Office of Employee Relations should reassess the Fair Employment and Disability Access workload and if necessary reassign the analyst to other responsibilities. In addition, the Office of Employee Relations should accurately record the hours its staff spends providing training.

RECOMMENDATIONS

We recommend that the Office of Employee Relations:

- Recommendation #9 Reassess the Fair Employment and Disability Access workload and if necessary reassign the analyst to other responsibilities. (Priority 3)**
- Recommendation #10 Accurately record and report the hours its staff spends training City employees and the hours of harassment and discrimination training City employees receive. (Priority 3)**

² Equal Employment Opportunity Plan and Program.

#02-11 An Audit Of Hayes Renaissance, L.P.'s Compliance With The Lease Agreement For The Hayes Mansion Conference Center (December 2002)

The Hayes Renaissance, L.P. Paid The City In Accordance With The Terms Of The Hayes Mansion Conference Center Lease Agreement

The City of San José (City) owns the Hayes Mansion Conference Center (HMCC) and leases it to Hayes Renaissance, L.P., a California Limited Partnership (Tenant). The Tenant makes several types of payments to the City under the Lease Agreement. We verified that the payments the Tenant made were in compliance with the terms of the Lease Agreement. Of the payments, two are calculated based on the Tenant's gross revenues. Therefore, during our audit, we reviewed the Tenant's system of internal controls at the HMCC and tested a limited number of transactions to determine whether the Tenant properly recorded all revenues.

The City Of San José Lacks Controls To Ensure That The Tenant's Deferred Percentage Rent Payments Will Be Collected When They Are Due Beginning In 2014

In accordance with the Lease Agreement, the Tenant deferred the annual Percentage Rent payments due in 1999, 2000, and 2001. The Tenant can defer the payments and the accrued interest until 2014 and repay the deferred amounts in four equal annual installments due in each year from 2014 to 2017. However, we found that the City lacks controls to ensure that the City has accounted for and will collect these payments when they become due beginning in 2014.

RECOMMENDATION

We recommend that the Finance Department and Parks, Recreation, and Neighborhood Services work together to:

Recommendation #1

Record the 1999, 2000 and 2001 Percentage Rent deferred payments and accrued interest in the City of San José's Financial Management System. (Priority 2)

The Lease Agreement Allows The Tenant To Exclude Certain Revenues In Calculating Lease Payments Based On Gross Revenues

The HMCC charges an 18 percent service charge in connection with food and beverage services during events such as conferences, receptions, and banquets. The definition of gross revenues in the Lease Agreement allows for a deduction of revenues related to service charges which includes revenues the Tenant receives. As such, the Tenant excludes service charge revenues it receives when calculating payments to the City that are based on a percentage of gross revenues. We recommend that the City propose to the Tenant amending the Lease

Agreement to explicitly include in the calculation of gross revenues for lease payment purposes, the portion of the service charges that the Tenant retains.

RECOMMENDATION

We recommend that the City:

Recommendation #2 Propose to the Tenant amending the Lease Agreement to explicitly include in the calculation of gross revenues for lease payment purposes, the portion of service charges that the Tenant retains. (Priority 2)

The Payment Of Half Of The Tenant's Management Fee To The HMCC's Manager Has Priority Over Lease Payments To The City And The Amount Of The Fee Is Outside The Purview Of The Lease Agreement

The Tenant pays a monthly management fee to the Network Conference Company, LLC (NCC) to manage the HMCC. We found that the Lease Agreement shows that the payment of half of the management fee to NCC has priority over lease payments to the City and that the amount of the management fee is outside the purview of the City's lease. Further, the Lease Agreement neither defines nor describes the management fee. Thus, the Tenant could increase the management fee without City approval and possibly jeopardize future lease payments to the City. Further, at least two of the principals of the Tenant are also principals of NCC. We recommend that the City propose to the Tenant amending the Lease Agreement to give the City the right to approve the amount of, and any changes to, the management fee.

RECOMMENDATION

We recommend that the City:

Recommendation #3 Propose to the Tenant amending the Lease Agreement to give the City the right to approve the amount of, and any changes to, the management fee. (Priority 2)

#03-01 An Audit Of The Targeted Neighborhood Clean-up Program (January 2003)

The Targeted Neighborhood Clean-up Program Can Be Expanded And Enhanced

In 2001-02, the City of San José (City) coordinated 49 Targeted Neighborhood Clean-up Program (Program) events. These Program events targeted almost 50,000 households and resulted in the collection of almost 2,500 tons of debris. We found that the Program was very popular with City Council members and San José residents. However, we identified several

opportunities to improve the efficiency and effectiveness of the Program. Specifically, we found that:

- Some neighborhoods can go up to eight years between Clean-ups;
- Program capacity can be increased by maximizing the use of available resources;
- A City Council Office-Directed Community Grant Program may be a cost effective alternative for specific resident requests for Clean-up events;
- Consistency in informing residents of upcoming clean-ups can be improved;
- Total Program costs are difficult to capture;
- A comprehensive budget for the Program and a process to compare budgeted to actual Program costs is needed;
- Code Enforcement should collect and analyze additional Program performance information;
- Awareness of coordination efforts with other City services and community-based organizations varies;
- The City should use unused Household Hazardous Waste (HHW) Program Resources of about \$151,000 to address unmet needs; and
- The County of Santa Clara may owe the City \$31,115 due to tonnage report discrepancies.

The Neighborhood Clean-up Program can be improved by 1) maximizing the use of available budget resources; 2) establishing a City Council Office-Directed Community Grant Program; 3) creating consistency in informing residents of upcoming clean-ups; 4) developing a comprehensive budget scheme; 5) collecting and analyzing participant information; 6) reporting on coordination efforts with other City services and community-based organizations; 7) utilizing \$151,000 of unused HHW capacity to service San José residents; and 8) resolving the \$31,115 tonnage report discrepancy with the County of Santa Clara. By implementing these improvements, Code Enforcement will be able to offer San José residents a more comprehensive and effective Neighborhood Clean-up Program.

RECOMMENDATIONS

We recommend that Code Enforcement:

- Recommendation #1** **Report to the City Council on its assessment of ways to reduce overtime costs and increase targeted Clean-up areas to accommodate an average of 22 bins per Clean-up event, Work with the City Council to establish a City Council Office-Directed Community Grant Program to provide for two small neighborhood Clean-ups per year per City Council District, and**
- Develop written standards regarding the form, content, and timing for Clean-up event flyers and use funds budgeted for Clean-up event bins to cover the costs to mail the flyers. (Priority 3)**

We also recommend that the City Council:

- Recommendation #2** **Either expand the Neighborhood Clean-up Program based on Code Enforcement's implementation of Recommendation # 1, or return the Program's unused budget capacity to the General Fund. (Priority 3)**

We recommend that Code Enforcement and the Environmental Services Department:

- Recommendation #3** **Establish a comprehensive budget for the Neighborhood Clean-up Program and a process to compare budgeted to actual Program costs. (Priority 3)**

We recommend that Code Enforcement:

- Recommendation #4** **Collect and analyze Clean-up statistics and additional Clean-up performance information. (Priority 3)**

- Recommendation #5** **Report to the City Council on the extent of coordination efforts with other City services and community-based organizations. (Priority 3)**

We recommend that the Environmental Services Department:

- Recommendation #6** **Use unused Household Hazardous Waste Program (HHW) capacity to fund additional HHW Program disposal and/or outreach activities. (Priority 3)**

We recommend that the Environmental Services Department:

Recommendation #7 Resolve the \$31,115 tonnage report discrepancy with the County of Santa Clara. (Priority 2)

#03-03 An Audit Of The Fleet Management Division Of The General Services Department's Vehicle Replacement Program (February 2003)

Reduced Vehicle Purchases Saved The City Of San José \$11,571,897 In 2001-02. In Addition, The City Could Save Or Transfer To The General Fund \$19,278,456 From 2002-03 Through 2004-05

During our audit of the vehicle replacement process of the Fleet Management Division (FMD) of the General Services Department (GSD), we identified over \$30 million in actual and potential savings from reduced vehicle purchases and available Fund 552 balances. Specifically, we found the following:

- For 2001-02, the City budgeted \$12,618,593 for vehicle replacements and additions - \$8,219,313 for general fleet and police vehicles and \$4,399,280 for special fund vehicles. However, we found that many of the vehicle purchases the FMD of the GSD had proposed were not immediately necessary. As a result, in 2001-02 the City was able to save the General Fund \$7,445,682 and various special funds \$4,126,215;
- We estimate that in 2002-03, the City has saved or avoided spending \$3,015,000 on vehicle replacements and maintenance staff costs and could save the General Fund up to \$7,913,456 by eliminating unnecessary vehicle purchases and using available Vehicle Maintenance and Operations Fund (Fund 552) balances;
- In recognition of our audit efforts, the Budget Office implemented a three-year plan to save the General Fund \$5,850,000 from 2003-04 through 2004-05; and
- The City may be able to save an additional \$2,500,000 by eliminating unnecessary vehicle purchases during 2003-04 and 2004-05.

In our opinion, the City should implement administrative and procedural changes to ensure that the FMD purchases only those vehicles that are economically justified and programmatically required. In addition, the Budget Office should review Fund 552 to identify opportunities to transfer any excess balances to the General Fund.

RECOMMENDATIONS

We recommend that the Fleet Management Division:

Recommendation #1 **Consistently implement their replacement policy as well as all of the MOA’s requirements into its replacement process for police patrol sedans. (Priority 1)**

We recommend that the Fleet Management Division, San José Police Department, and the Budget Office:

Recommendation #2 **Determine an appropriate “operational contingency” of police patrol sedans that can meet operational and unexpected replacement needs. (Priority 2)**

We recommend that the Budget Office:

Recommendation #3 **Review Fund 552 to identify opportunities to transfer any excess balances to the General Fund. (Priority 2)**

We recommend that the City Manager:

Recommendation #4 **Formalize the current freeze on all vehicle and equipment purchases. (Priority 1)**

Recommendation #5 **Form a committee to review department requests for exemptions from the vehicle and equipment purchasing freeze. (Priority 2)**

The General Services Department’s Fleet Management Division Needs To Improve Its Administration Of The City’s Vehicle Fleet And Develop An Appropriate And Effective Vehicle Replacement Process

The General Services Department’s Fleet Management Division (FMD) administers the replacement process for the City’s 1,600 non-emergency vehicles. To ensure that the City of San José (City) resources are efficiently used, the FMD should replace City vehicles using consistent and appropriate criteria. However, we found that:

- In the absence of a Citywide policy, the FMD has not developed or implemented a consistent vehicle replacement process;
- The FMD has allowed departments to use replacements and loaned vehicles to add vehicles to the City’s fleet, thereby circumventing the Budget Office approval process; and

- The FMD has not adequately maintained and used database information to effectively and efficiently administer the vehicle replacement process.

As a result, the City has unnecessarily purchased vehicle replacements. These unnecessary vehicle replacement purchases have added to the cost of maintaining and operating the City's fleet and have not promoted the efficient use of City vehicles. In our opinion, the City Manager should develop and implement an appropriate Citywide vehicle replacement policy to guide the vehicle replacement process. By so doing, the FMD will have a consistent and appropriate method to identify those vehicle replacements that are critical to the delivery of City services and the City will have added assurance that its vehicle replacement purchases constitute an efficient use of City resources.

RECOMMENDATIONS

We recommend that the Fleet Management Division:

- Recommendation #6** **Consistently follow its vehicle replacement policy for all vehicle purchases regardless of the funding source. (Priority 2)**

We recommend that the Fleet Management Division:

- Recommendation #7** **Consistently follow its own prescribed procedure to conduct a comprehensive mechanical assessment on all vehicles considered for replacement. (Priority 2)**

We recommend that the City Manager:

- Recommendation #8** **Establish and implement a Citywide replacement policy for transport vehicles that incorporates vehicle mileage, years in service, accurate repair costs, and comprehensive mechanical assessments. (Priority 2)**

We recommend that the Fleet Management Division:

- Recommendation #9** **Stop loaning vehicles to departments on a long term basis and implement a formal process for loaning vehicles, including the use of the City vehicle pool. (Priority 2)**

- Recommendation #10** **Develop and implement procedures for the retrieval and disposal of replaced vehicles. (Priority 2)**

We recommend that the Fleet Management Division:

Recommendation #11 **Work with the Budget Office to develop and implement procedures to ensure all additions to the vehicle fleet receive Budget Office approval. (Priority 2)**

Recommendation #12 **Review the database information to ensure it is accurate and complete. (Priority 3)**

*The Process For
Adding Vehicles To
The City Fleet Needs
Improvement*

Departments submit their requests for vehicle additions to the Budget Office. The Budget Office is responsible for reviewing and approving the vehicle addition requests. The General Services Department's Fleet Management Division (FMD) is responsible for ordering and purchasing the vehicles. However, we found that vehicle additions were not sufficiently scrutinized. Specifically, we found that:

- City departments frequently did not account for the on-going costs of vehicles when submitting requests for vehicle additions.
- City departments sometimes ordered and received more expensive vehicles than appeared necessary.
- The FMD and Budget Office need to better coordinate the flow of information to facilitate the decision making process for vehicle additions.

As discussed in Finding II, the vehicle additions process has resulted in a larger than necessary vehicle fleet and has therefore produced increased vehicle replacement, operating, and maintenance costs. The City Auditor's Office is reviewing the City's fleet inventory to identify efficiencies in the size of the City fleet and the FMD's management of the fleet program. Until a more detailed analysis of the City's fleet utilization is completed, the City's fleet will continue to be oversized. In recognition of our findings and likely downsizing of the City fleet, the Budget Office reduced the General Services Department's 2002-03 Operating Budget for vehicle maintenance staffing levels by \$255,000.

RECOMMENDATIONS

We recommend that the Budget Office:

- Recommendation #13** **Ensure all department requests for vehicle additions identify the funding source and the estimated amount of on-going operating costs. (Priority 3)**

We recommend that the Fleet Management Division or Budget Office:

- Recommendation #14** **Develop a process to subject all department requests for vehicles to a standardized review process to ensure that departments are using similar vehicles for similar purposes. (Priority 2)**

We recommend that the Budget Office and the Fleet Management Division:

- Recommendation #15** **Better coordinate the exchange of vehicle information to ensure that additions to the City's vehicle fleet are appropriate. (Priority 2)**

#03-04 An Audit Of The Airport Neighborhood Services Group (March 2003)

The Airport Neighborhood Services Group Can Improve Upon Its Compliance With City Council-Approved Responsibilities

On June 8, 2001, the City Council authorized the establishment of the Airport Neighborhood Services Group (ANSG) and approved the proposed responsibilities and duties of the ANSG as outlined in the Replacement Manager's Budget Addendum #18 (RMBA #18). The ANSG was established to serve as an advocate for residents and attempt to reduce the impact of the Airport on local neighborhoods through public outreach and customer service. In addition to the community interaction, the ANSG is charged with developing strong working partnerships with various Airport Divisions and representing community interests at various department and committee meetings. Based on our review and comparison of the RMBA #18 and the activities of the ANSG through June 2001 and October 2002, we found that:

- The ANSG is fulfilling seven of the thirteen responsibilities outlined in RMBA #18 while five other City entities are accountable for the remaining six responsibilities;

- The ANSG does not communicate its outreach activities to the City Council in a comprehensive and consistent manner; and
- Additional responsibilities identified in two City Council memoranda dated June 25, 2001 and November 13, 2001 are outside the scope of the ANSG authority.

As a result, the ANSG can improve upon its compliance with City Council-approved responsibilities and its reporting on its activities to the City Council. In our opinion, the ANSG should (1) collaborate with various City entities and Airport Divisions to ensure that all RMBA #18 responsibilities are fulfilled; (2) increase its interaction with the various entities that are responsible for fulfilling the duties outlined in the June 25, 2001 and November 13, 2001 City Council memoranda; (3) implement the use of a standardized complaint form to monitor constituent complaints and concerns; and (4) develop a standardized format for reporting all of its areas of responsibility to the City Council on a regular basis. By so doing, the City Council will have added assurance that the ANSG and other City entities are fulfilling their assigned responsibilities.

RECOMMENDATIONS

We recommend that the Airport Neighborhood Services Group:

Recommendation #1 Develop a standardized constituent complaint form to document the nature of the complaint, how the issue was resolved, any follow-up action taken, and how long it took to resolve the complaint. (Priority 3)

We recommend that the Airport Neighborhood Services Group:

Recommendation #2 Develop a standardized report format which includes comprehensive information on all of the RMBA #18 areas of responsibility. (Priority 3)

Recommendation #3 Collaborate with, monitor, and report on the efforts of the other City entities that are responsible for Replacement Manager's Budget Addendum #18-identified responsibilities. (Priority 3)

We recommend that the Airport Neighborhood Services Group:

Recommendation #4 Collaborate with the identified City entities in the City Council's June 25, 2001 and November 13, 2001 memoranda and monitor and report on their progress and efforts regarding their respective areas of responsibility. (Priority 3)

#03-05 An Audit Of The Customer Service Call Center's Handling Of Service Requests (March 2003)

The Call Center Handles Most Service Requests In A Timely Manner, But Procedural Improvements Are Needed

To evaluate the Customer Service Call Center's (Call Center) effectiveness in handling service requests, we reviewed both completed and open service requests. We found that while the Call Center handles most requests for City of San José (City) services in a timely manner, procedural improvements are needed. In our opinion, the Call Center should work together with the responsible departments to develop written follow-up procedures for service requests. In addition, we recommend that the Call Center develop written procedures to ensure that supervisors follow up on service requests in a timely manner. Further, we recommend that the Call Center and the Planning, Building, and Code Enforcement Department (PBCE) provide training for using their respective service request database software. We also reviewed the Department of Transportation's (DOT) streetlight service requiring Pacific Gas and Electric Company (PG&E) repair. As of April 2002, the DOT's database showed 133 streetlight service requests open over 30 days. For all these requests, PG&E was responsible for the repairs. At our request, DOT crews inspected 26 of the 133 streetlights and found that all 26 streetlights were working. In our opinion, the DOT should work with PG&E on methods to communicate the status of streetlight repairs requiring PG&E repair, such as phone, fax, or e-mail. Further, for those streetlights that it is unable to obtain a repair status from PG&E, the DOT should either inspect the streetlights or contact the residents to determine if the streetlights are working, then update the status of the requests and, if necessary, make additional requests for repairs.

RECOMMENDATIONS

We recommend that the Call Center:

Recommendation #1 Work together with the responsible departments to develop written procedures for following up on service requests. (Priority 3)

Recommendation #2 Develop written procedures to ensure timely supervisory review of service request follow-up. (Priority 3)

We recommend that the Call Center and the Department of Planning, Building, and Code Enforcement:

Recommendation #3 Provide training for using their respective service request database software. (Priority 3)

We recommend that the Department of Transportation:

Recommendation #4 Work with PG&E on methods to communicate the status of streetlight repairs requiring PG&E repair, such as phone, fax, or e-mail. (Priority 3)

Recommendation #5 For those streetlights that it is unable to obtain repair status from PG&E, that the DOT should either inspect the streetlights or contact the residents to determine if the streetlights are working, then update the status of the requests and, if necessary, make additional requests for repairs. (Priority 3)

Sales And Business Tax Audits

Our objectives in the audit of sales and business taxes are to identify:

- San José retail businesses that do not file sales tax returns;
- Misallocation of the local portion of the sales taxes paid by San José businesses; and
- San José businesses that have not paid or have underpaid the San José business tax.

In conducting our ongoing audit of sales and business taxes, we performed the following procedures:

- Compared the San José telephone and other directories with sales tax and business tax databases to ensure that companies and individuals doing retail business in San José were using a San José sales tax identification code;
- Visited business locations at the City of San José's periphery and compared these businesses' locations to the sales tax and business tax databases to ensure that businesses within the San José borders were using a San José sales tax identification code and had a current San José business license;
- Called businesses to request copies of their sales tax returns;
- Reported any identified nonfiling or misallocation of sales taxes to the State Board of Equalization;
- Reported any nonpayment of San José business taxes to the Finance Department for collection. We identified these businesses by comparing to the business tax database (1) the San José telephone directory, (2) fictitious name listings from the County, (3) other directories, (4) the contractor database in the City Clerk's office, (5) the Department of Information Technology printout--SIC property owner list, (6) real property databases, and (7) known out-of-town consultants who conduct business with the City; and
- Contacted the personnel departments or representatives of businesses and confirmed the average number of full- and part-time employees of the business. We reported to the Finance Department the businesses that we identified in which the number of full-time equivalent employees differed from the number recorded in the City's business tax database.

In 2001-02 and 2002-03, our ongoing sales and business tax audits identified \$2,109,555 in additional sales and business tax revenues and 5,520 San José businesses not properly reporting sales and/or business taxes. The table below summarizes the results.

Quarter Ended	San José Businesses Identified As Not Properly Reporting Sales And/Or Business Taxes	Additional Sales And Business Tax Revenues Identified
September 30, 2001	222	\$262,979
December 31, 2001	1,588	\$278,300
March 31, 2002	722	\$250,155
June 30, 2002	359	\$254,426
September 30, 2002	757	\$297,801
December 31, 2002	882	\$260,682
March 31, 2003	362	\$252,547
June 30, 2003	628	\$252,665
TOTALS	5,520	\$2,109,555

In addition, a May 2002 City Auditor memorandum (see Appendix D) informed the Mayor and City Council that additional City Auditor revenue enhancement activities resulted in \$11,028,838 in revenue enhancements or cost savings for the City's General Fund.

As a result, ongoing sales and business tax audits and additional City Auditor revenue enhancement activities identified \$13,138,393 in additional revenues or cost savings during 2001-02 and 2002-03.

Follow-up Of Audit Recommendations

In accordance with the City Auditor's workplan, we prepared semi-annual reports on the status of open recommendations. To prepare the follow-up reports, we met with department staff, reviewed departments' assessments of audit recommendation status, and reviewed documentation provided by departments on the implementation of audit recommendations.

The following table summarizes the results of our follow-up reviews:

Period	Number Of Recommendations Implemented Or Resolved
Six months ended 12/31/01	15
Six months ended 6/30/02	37
Six months ended 12/31/02	22
Six months ended 6/30/03	22
TOTAL	96

